

MEMORANDUM

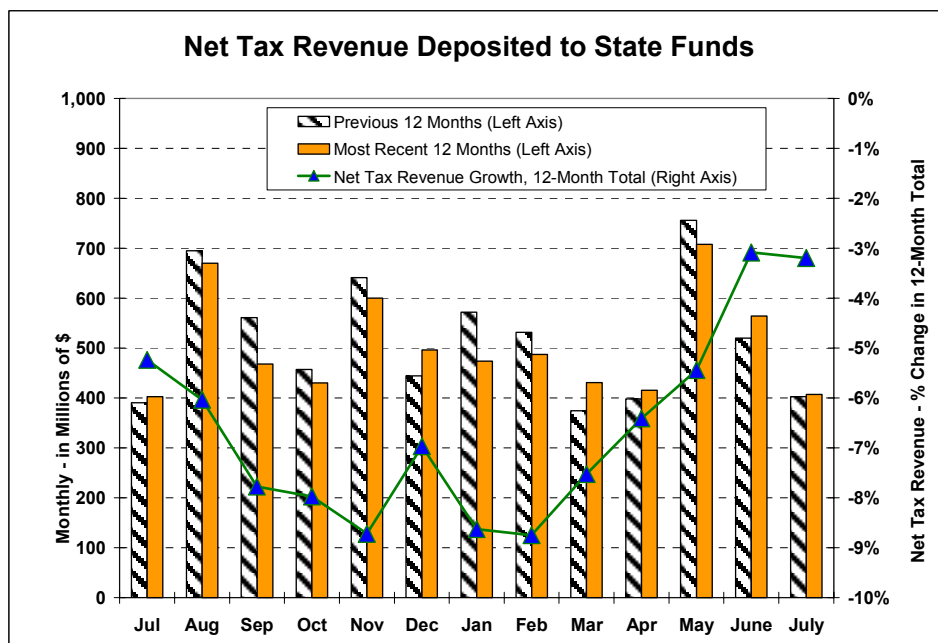
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: August 30, 2010

Twelve-month Total Net Tax Receipts Through July 31, 2010

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending July 2010 with comparisons to the previous twelve months. July 2009 to July 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Month of July Comparison

July net tax receipts totaled \$407.0 million, an increase of \$4.5 million (1.1%) compared to July 2009. Major taxes and their contribution to the month's change include:

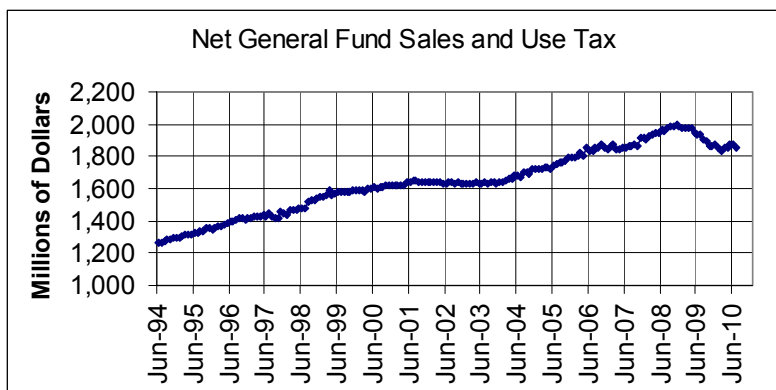
- Individual Income Tax (positive \$9.8 million, 5.3%) – Gross income tax receipts increased \$7.6 million in July while income tax refunds decreased \$2.2 million.

- Sales/Use Tax (negative \$15.4 million, - 12.7%)
 - Road Use Tax Fund use tax/fees for new registrations increased \$1.3 million, the fourth straight month of strong growth.
 - Gross General Fund sales/use tax receipts decreased \$10.2 million and refunds issued for the month increased \$6.6 million (net decrease of \$16.8 million). July 31 fell on a weekend in 2010, significantly reducing July 2010 gross sales tax deposits.
- Corporate Income Tax (positive \$10.8 million, 120.0%) – Gross corporate tax receipts increased \$11.6 million and refunds increased \$0.8 million.
- Fuel Tax (positive \$4.2 million, 11.3%) – Gross fuel tax revenue increased \$4.3 million while refunds processed in the month increased \$0.1 million. The July increase partially offsets a large June decrease.
- Cigarette and Tobacco Taxes (negative \$2.6 million, - 12.0%) – The July decrease follows a large increase experienced in June.
- Gambling Tax (negative \$4.9 million, - 26.8%) – July's large reduction in gambling tax revenue relates to the redemption of tax credits by gambling boat facilities under the provisions of HF 2302 (Gambling Operations Act of 2004). Those credits reduced gambling taxes owed State and local governments by \$6.0 million compared to FY 2010. The tax credits for boat facilities will reduce gambling tax revenue by a total of \$30.0 million over five fiscal years. Track facilities have a similar tax credit, but their five-year period began in FY 2009 and the impact for the three tracks will total \$23.0 million over those years.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending July 2010, net revenue from all taxes deposited to State funds totaled \$6.151 billion, a decrease of \$202.9 million (- 3.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$64.9 million, - 2.4%) – The rate of individual income tax receipt growth peaked in April 2008 at 11.8% year-over-year. The annual growth rate bottomed at negative 9.3% in February 2010 and has recovered significantly, but the annual rate of growth remains negative.
- Sales/Use Tax (negative \$77.0 million, - 3.5%) – While the annual growth in sales/use tax revenue is still quite negative, it is a significant improvement from the negative 7.4% over the twelve months ending February 2010. At that point, net sales/use tax revenue was 8.4% below its November 2008 peak. The following graph presents a historical picture of the General Fund portion of sales/use tax.



- Corporate Tax (negative \$29.3 million, - 11.8%) – The most recent twelve months have produced \$219.4 million in net corporate income tax, down \$152.5 million (- 41.0%) from the June 2008 peak.
- Fuel Tax (negative \$5.5 million, - 1.2%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period Iowa taxable gasoline/ethanol gallons sold increased 1.9% while taxable diesel sales decreased 1.0%, the twenty-first consecutive month showing a decline in annual taxable diesel sales. Taxable diesel sales over the most recent 12-month period were 9.1% below the March 2008 peak sales level.
- Gambling Tax (negative \$14.4 million, - 4.9%) – According to Racing and Gaming Commission statistics, twelve of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending June 2010, and AGR growth for all facilities was negative 3.1% over the period.
- Cigarette and Tobacco Tax (negative \$6.2 million, - 2.6%) – Economic conditions and an increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (positive \$1.7 million, 1.9%) – The increase is likely the result of fewer redemptions of tax credit certificates compared to last year.

Tax Spotlight – Motor Vehicle Fuel Tax

Motor vehicle fuel is taxed under Iowa Code Chapter 452A. The tax is imposed on each gallon of fuel sold in Iowa for use in most motor vehicles and aircraft. Tax rates for July 1, 2009, through June 30, 2010, are:

- Gasoline - \$0.210 per gallon
- Ethanol Blended Gasoline - \$0.19 per gallon
- E-85 - \$0.19 per gallon
- Aviation Gasoline - \$0.08 per gallon
- Diesel Fuel - \$0.225 per gallon
- Liquefied Petroleum Gas (LPG) - \$0.20 per gallon
- Aviation Jet Fuel - \$0.03 per gallon
- Compressed Natural Gas - \$0.16 per 100 cubic feet

Tax rates for gasoline and ethanol-blended gasoline (including E-85) are adjusted each fiscal year by the Department of Revenue and are based on the previous calendar year's ethanol-blended gasoline sales. Sellers of motor vehicle fuel must be licensed by the Department of Revenue.

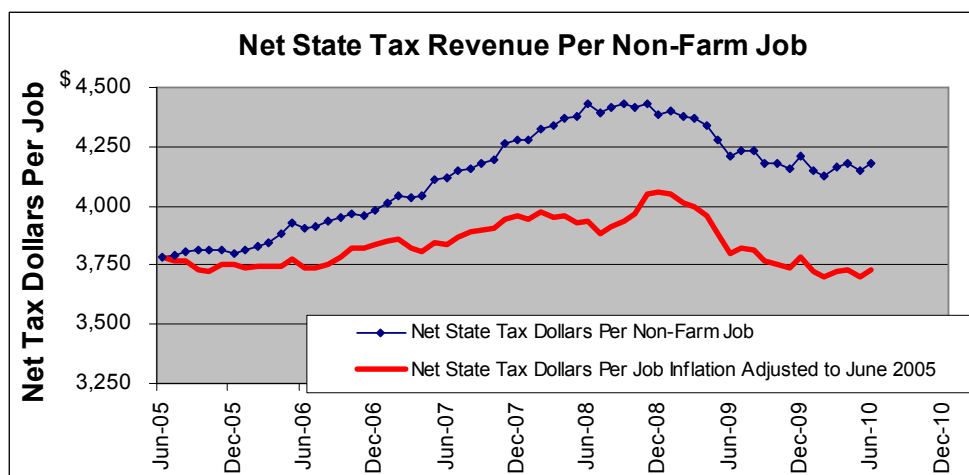
The Iowa motor fuel tax was imposed in 1925 in SF 312 (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. In 1989, the tax rate on diesel fuel was increased to its present rate of \$0.225 per gallon and the tax rate on gasoline was increased to \$0.20 per gallon. House File 716 (Ethanol-Blended Gasoline and Related Taxes Act of 2001) established a motor vehicle fuel tax schedule. The Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol-blended gasoline based on the tax schedule. The market-share of ethanol-blended gasoline during a calendar year determines the tax rate on gasoline and ethanol-blended

gasoline for the following fiscal year. The tax rate per gallon could range from \$0.19 to \$0.20 on ethanol-blended gasoline and \$0.20 to \$0.21 on gasoline. The use of the tax schedule was to end after FY 2007; however the General Assembly extended the use of the tax schedule through FY 2012 in SF 601 (Standing Appropriations Act of 2007). Starting in FY 2013, the tax rate on gasoline and ethanol blended gasoline will be \$0.20 per gallon.

Motor vehicle fuel tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are credited to the State Aviation Fund (Iowa Code Chapter 452A.82). Starting in FY 2008, tax receipts from the sale of gasoline used in water craft are deposited in the Marine Fuel Tax Fund (Iowa Code Chapter 452A.84). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund.

Tax Revenue and Employment

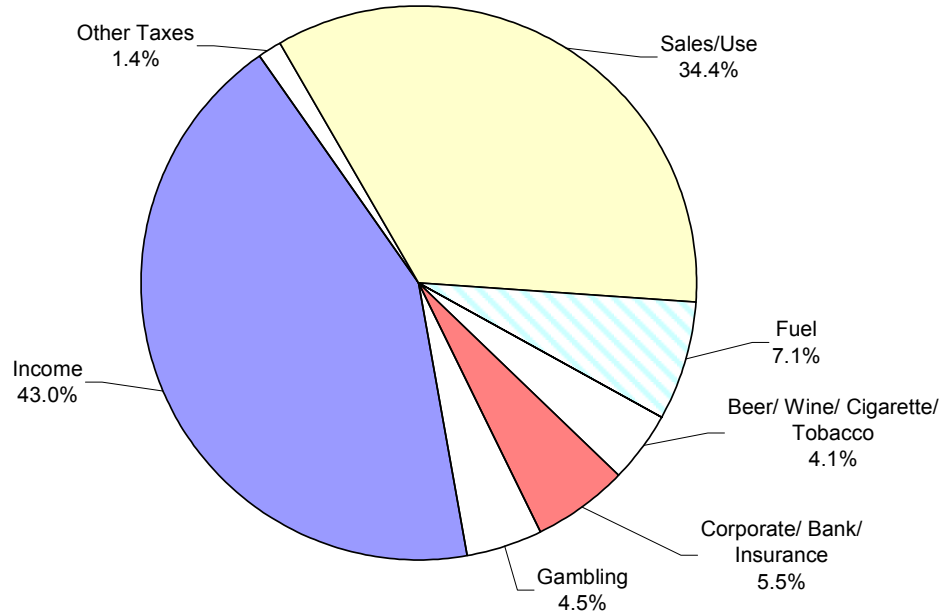
The average reading for Iowa non-farm employment over the 12 months ending June 2010 is 1,470,600, and net State tax receipts over the same twelve months totaled \$6.145 billion, or \$4,179 per non-farm job. This is \$394 (10.4%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 12.1%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by roughly 0.3% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending July 2010

Net Revenue = \$6.150 Billion

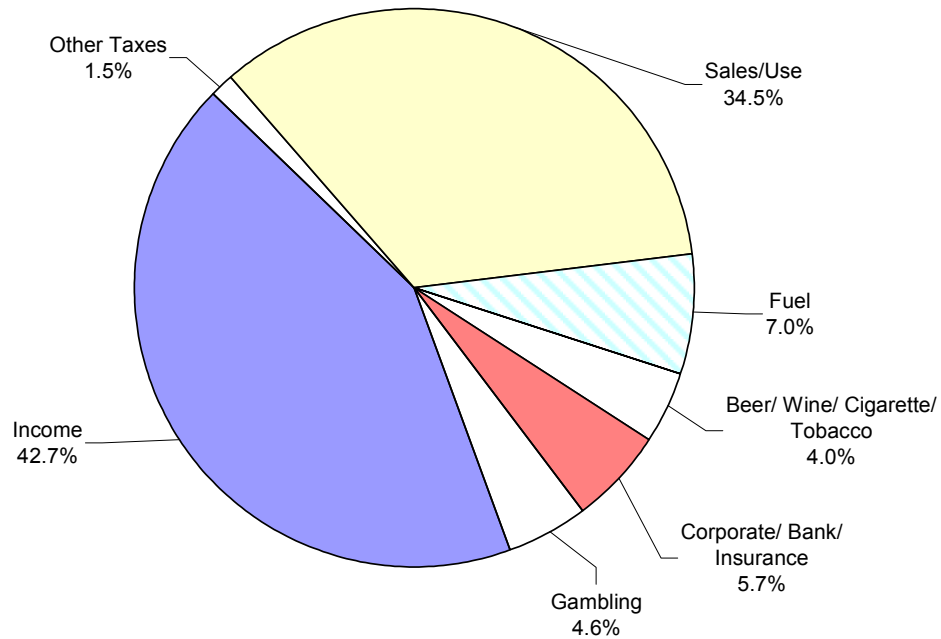
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending July 2009

Net Revenue = \$6.353 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

| Net Tax by Tax Type | Previous 12-Month Period Total | Most Recent 12-Month Period Total | 12-Month \$ Change | 12-Month % Change | Month of July 2009 | Month of July 2010 | July \$ Change | July % Change |
|---------------------------------|---|---|-----------------------|----------------------|-----------------------|-----------------------|-------------------|------------------|
| Banking | \$ 28.1 | \$ 27.3 | \$ - 0.8 | -2.8% | \$ 1.3 | \$ 1.2 | \$ - 0.1 | -7.7% |
| Beer & Wine | 21.0 | 21.2 | 0.2 | 1.0% | 1.9 | 2.0 | 0.1 | 5.3% |
| Cigarette & Tobacco | 235.1 | 228.9 | - 6.2 | -2.6% | 21.6 | 19.0 | - 2.6 | -12.0% |
| Corporate Income | 248.7 | 219.4 | - 29.3 | -11.8% | 9.0 | 19.8 | 10.8 | 120.0% |
| Fuel | 442.4 | 436.9 | - 5.5 | -1.2% | 37.2 | 41.4 | 4.2 | 11.3% |
| Gambling | 291.9 | 277.5 | - 14.4 | -4.9% | 18.3 | 13.4 | - 4.9 | -26.8% |
| Individual Income | 2,711.1 | 2,646.2 | - 64.9 | -2.4% | 184.8 | 194.6 | 9.8 | 5.3% |
| Inheritance | 73.6 | 66.3 | - 7.3 | -9.9% | 6.1 | 6.5 | 0.4 | 6.6% |
| Insurance | 87.4 | 89.1 | 1.7 | 1.9% | 0.9 | 1.5 | 0.6 | 66.7% |
| Other Taxes | 7.0 | 8.4 | 1.4 | 20.0% | - 1.5 | - 0.5 | 1.0 | -- |
| Real Estate Transfer | 14.6 | 13.8 | - 0.8 | -5.5% | 1.4 | 2.0 | 0.6 | 42.9% |
| Sales/Use | 2,192.5 | 2,115.5 | - 77.0 | -3.5% | 121.5 | 106.1 | - 15.4 | -12.7% |
| Total Net Taxes | \$ 6,353.4 | \$ 6,150.5 | \$ - 202.9 | -3.2% | \$ 402.5 | \$ 407.0 | \$ 4.5 | 1.1% |
| Gross Tax & Refunds | | | | | | | | |
| Gross Tax | \$ 7,618.4 | \$ 7,413.0 | \$ - 205.4 | -2.7% | \$ 463.2 | \$ 473.3 | \$ 10.1 | 2.2% |
| Tax Refunds | \$ - 1,265.0 | \$ - 1,262.7 | \$ 2.3 | -0.2% | \$ - 60.7 | \$ - 66.3 | \$ - 5.6 | 9.2% |
| Net Tax Receipts by Fund | | | | | | | | |
| State General Fund (GF) | \$ 5,401.6 | \$ 5,213.9 | \$ - 187.7 | -3.5% | \$ 333.4 | \$ 326.7 | \$ - 6.7 | -2.0% |
| Road Use Tax Fund | \$ 702.0 | \$ 696.6 | \$ - 5.4 | -0.8% | \$ 61.0 | \$ 66.5 | \$ 5.5 | 9.0% |
| Non-GF Gambling | \$ 231.1 | \$ 220.6 | \$ - 10.5 | -4.5% | \$ 7.5 | \$ 13.2 | \$ 5.7 | 76.0% |
| Other State Funds | \$ 18.7 | \$ 19.2 | \$ 0.5 | 2.7% | \$ 0.6 | \$ 0.6 | \$ 0.0 | 0.0% |
| Local Option Taxes * | \$ 797.3 | \$ 785.0 | \$ - 12.3 | -1.5% | \$ 64.9 | \$ 69.5 | \$ 4.6 | 7.1% |

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited to the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited to several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited to the State General Fund. A total of \$4.0 million per year is deposited to the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited to the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited to the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% to the State General Fund, 5.0% to the Housing Trust Fund, and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.